

Message Text

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PAGE 01 STATE 012687

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DRAFTED BY S/S-O:M.HUGHES

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FM SECSTATE WASHDC

TO AMEMBASSY LONDON IMMEDIATE

UNCLAS STATE 012687

TOSEC 261

FOLLOWING SENT BEIRUT FROM SECSTATE WASHDC 20 JAN 74:

QUOTE UNCLAS STATE 012687

TOSEC 261

FOLLOWING REPEAT PARIS 1654 ACTION SECSTATE INFO BONN,
BRUSSELS, THE HAGUE, LONDON, ROME, TOKYO, EC BRUSSELS,
OECD PARIS, JAN 19:

QUOTE UNCLAS PARIS 1654

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN/FR

SUBJECT: FRANCE FLOATS THE FRANC

1. SUMMARY: EXTRAORDINARY MEETING OF FRENCH COUNCIL OF MINISTERS
CALLED ON MORNING OF JANUARY 19, DECIDED TO LET FRENCH FRANC FLOAT
FOR SIX MONTHS PERIOD. END SUMMARY.

2. AT 7:30 PM GOVT SPOLESMAN ANNOUNCED FOLLOWING DECISIONS TAKEN
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PAGE 02 STATE 012687

BY EXTRAORDINARY MEETING OF FRENCH COUNCIL OF MINISTERS ON MORNING

OF JAN 19:

A. SUSPEND FOR SIX MONTHS MANDATORY INTERVENTIONS BY BANK OF FRANCE ON EXCHANGE MARKET (IN OTHER WORDS, ALLOW COMMERCIAL FRANC TO FLOAT AGAINST OTHER "SNAKE" CURRENCIES).

B. CONVENE SPECIAL SESSION OF PARLIAMENT FOR JAN 22 TO DEBATE SUBJECT OF "MONETARY POLICY OF FRANCE".

3. GOVT SPOKESMAN ALSO SAID FRANCE HAD CONSULTED WITH EC AND WITH OTHER MEMBER COUNTRIES OF FRANC AREA. FOLLOWING COUNCIL OF MINISTERS MEETING FINANCE MINISTER GISCARD D'ESTAING WENT TO GERMANY, WHERE HE SAW GERMAN FINANCE MINISTER SCHMIDT AND BRIEFLY CHANCELLOR BRANDT. SPOKESMAN RECALLED THAT GERMANY WAS CURRENT CHAIRMAN OF EC COUNCIL OF MINISTERS. AFTER RETURN TO PARIS AT END OF DAY, GISCARD ALSO INFORMED EC COMMISSION PRESIDENT ORTOLI.

4. IMMEDIATELY FOLLOWING OFFICIAL ANNOUNCEMENT OF GOVT'S DECISION TO LET FRANC FLOAT, GISCARD, IN SHORT SPEECH ON TV AND RADIO, JUSTIFIED THIS STEP IN FOLLOWING TERMS:

A. FRANCE HAS ALWAYS BEEN ADVOCATE OF ORDERLY INTERNATIONAL MONETARY SYSTEM, WHICH MEANS FIXED RATES AND CURRENCY CONVERTIBILITY.

B. BUT THERE IS ABSOLUTELY NO CHANCE OF ANY REFORM OF MONETARY SYSTEM EITHER IN 1974 OR IN 1975. THIS MEANS A NUMBER OF MAJOR CURRENCIES --- US DOLLAR, CANADIAN DOLLAR, STERLING, LIRA, YEN AND EVEN SWISS FRANC--- WILL CONTINUE TO FLOAT.

C. MOREOVER, OIL CRISIS MEANS LARGE PAYMENTS DEFICITS FOR MANY COUNTRIES -- TOTALING AS MUCH AS \$60 BILLION IN 1974 FOR PRINCIPAL COUNTRIES. AT PRESENT NO ONE KNOWS HOW THESE DEFICITS WILL BE FINANCED. OUTLOOK IS THUS FOR CONTINUING INSTABILITY OF INTERNATIONAL PAYMENTS, AND THE COUNTRY WHICH TRIES TO DEFEND ITS CURRENCY AT A FIXED RATE WILL EXPOSE ITSELF TO HEAVY RESERVE LOSSES AND IN THE END MAY HAVE BOW BEFORE SPECULATION ANYWAY.

D. THERE ARE TWO ADVANTAGES AND ONE DISADVANTAGE STEMMING FROM DECISION TO FLOAT:

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PAGE 03 STATE 012687

1. FIRST ADVANTAGE IS THAT IT PROTECTS RESERVES. BANK OF FRANCE IS FREE TO INTERVENE IF THIS CONSIDERED DESIRABLE, BUT HAS NO OBLIGATION TO DO SO.

2. SECOND ADVANTAGE IS THAT FLOATING GIVES FRANCE INCREASED LATITUDE TO PURSUE DOMESTIC ECONOMIC POLICIES IT CONSIDERS NECESSARY TO PROMOTE ITS PRIORITY OBJECTIVES: EXPORTS, SUPPORT FOR LEVEL OF ECONOMIC ACTIVITY AND MAINTENANCE OF LEVEL OF EMPLOYMENT.

3. DISADVANTAGE IS THAT FLOATING OF FRANC WILL INTERRUPT PROGRESS TOWARDS ECONOMIC AND MONETARY UNION IN EUROPE. BUT WITH OTHER EC CURRENCIES ALREADY FLOATING, OUTLOOK WAS ALREADY CLOUDED. FRANCE WILL DO EVERYTHING POSSIBLE GET TRAIN BACK ON TRACKS.

E. THREE CONCLUDING OBSERVATIONS:

1. FRANCE HAS ALWAYS INSISTED THAT OTHER COUNTRIES WITH FLOATING CURRENCIES BE READY INTERVENE TO MAINTAIN ORDERLY MARKET CONDITIONS, AND IS OF COURSE READY FOLLOW THIS PRINCIPLE AS REGARDS FRANC.

2. DECISION WAS TAKEN AFTER REFLECTION AND NOT UNDER PRESSURE OF CIRCUMSTANCES. FRIDAY WAS VERY CALM DAY FOR FRANC ON EXCHANGE MARKETS.

3. GOVT WILL CONTINUE TAKE WHATEVER MEASURES NECESSARY PROTECT FRENCH ECONOMIC SITUATION.

5. COMMENTATORS ARE PREDICTING THAT GOVT WILL BACK UP DECISION TO FLOAT WITH TIGHTENING OF EXCHANGE CONTROLS -- PARTICULARLY TO RESTRICT CAPITAL OUTFLOWS-- AND PERHAPS ALSO BY TIGHTENING CREDIT POLICY STILL FURTHER. THESE SOURCES SAY BANK OF FRANCE PROBABLY LOST SOMEWHERE BETWEEN \$400 AND \$600 MILLION LAST WEEK, TRYING TO KEEP COMMERCIAL FRANC WITHIN EUROPEAN MONETARY "SNAKE." STONE UNQUOTE RUSH

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